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# STRATEGY FOR INDUSTRIALIZATION AND EQUITY: AN APPROACH FOR SOUTH ASIAN COUNTRIES*

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## INTRODUCTION

The purpose of this paper is to suggest hopefully a strategy of industrial development which would promote equity between groups and regions within the same country. The geographical focus is on South Asia which has a common legacy of having been British colonies. Besides many other commonalties, South Asian countries share a concern for development generally expressed in their development plans.

It is crucial to point out that nature, significance and consequence of development is determined by interplay of social and political forces as they manifest themselves in the running of the state. The countries in the South Asian region do not manifest uniformity to allow for sweeping generalizations. However, it can be said that they manifest characteristics of pre-capitalist mode of production, and/or they are under the dominance of foreign capital and/or they show features of incipient capitalism in various degrees; the difference being not only between countries but also between regions and between sectors within the same country. The dominance of foreign capital manifests in many ways and it finds an alliance with native bourgeoisie whose interest lies in nurturing a dependency relationship with the local underprivileged groups as well as to claim, over the years, greater share of expropriation by the foreign collaborator. Thus the dominance of this bourgeoisie, inspite of its growing national character over the years, adopts a development policy which fails to promote unfettered development of the productive forces of the country on the one hand and which promotes inequity and inequality on the other. The political history of the colonial and post-colonial era of the South Asian region strongly suggest the dominance of the national bourgeoisie in the political and social decision making process. Thus the policies pursued by these countries almost inevitably promoted inequity while the same policies gradually grew nationalist and thus antagonistic to foreign dominance. The latter aspect however, depended on the length of political stability and the existence of political maturity of the dominant bourgeoisie. Thus it would be most strongly felt in India, while probably least manifest in Bangladesh.

Development efforts in South Asian countries, inspite of pronouncements of a different intent adopted capitalist market rationality particularly in the organized sectors of the economy inspite of the feudal or colonial

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institutional and social infrastructures opening the gateway of import of capital and capitalist accompanied by physical and technical processes in the interest of increased production and profit which allowed "new refined appurtenances of the good life" to the foreign collaborators and politically dominant national bourgeoisie who attempted to transform a traditional society based on privileges to a modernising society based on patronage and share in sinecures.

Because of this, development failed to assert its complete meaning on the policy makers in the post-colonial South Asia. The concept of development emphasized physical productivity functions and almost intuitively identified scarcity of capital as the factor responsible for limited development with complete disregard for the need of simultaneous development of other factors of production as well as desirable institutions. The basic logic revolved around the vicious circle of low income, low savings, low investment, low output and back to low income. The inevitability of assumption in respect of high and elastic marginal productivity of capital favoured the intervention through borrowed capital, through pomotion of capitalist class, through security of the interest of capital, and through policy discrimination against other factors of production. This approach very nicely suited the foreign collaborators as well as national bourgeoisie who were supported with further static and partial theories of surplus labour, zero productivity in rural sector and market imperfections inhibiting investment. These may be all true, but their limitations in defining a policy for equitable development was overlooked. These prescriptions came from a group who were technically qualified positivist economists with a mathematical bent of mind and a preference for linear extrapolation of logic involving historical data without consideration of social realities. But they successfully prevented them to be drawn into normative aspects involving socio-political environment with which policies need be and should be concerned. Like other developing countries, South Asia was also caught in the deluge of positivist development economies and its prescriptions.

/I.

## I. REVIEW OF PAST INDUSTRIALIZATION STRATEGY IN SOUTH ASIA

The experience of the last thirty years of industrialization in South Asia has seriously raised questions on the reliance on industrialization for 'modernization', and on 'economists' faith on industrialization for rapid economic development. The pattern of industrialization in India, Pakistan and Bangladesh show a closely similar trend in that (a) the growth in industrial output has been faster than the growth in industrial employment, that is, the output increase has been more due to high capital intensity, (b) the industrial sector has failed to generate sufficient employment opportunities so that the surplus labour force in agriculture has not been shifted in a gainful and productive employment in industry, (c) the per capita consumption of industrial output has remained stagnant, (d) the growth of industry has not been sufficient to justify the vast resource transfer from agriculture to manufacturing, and (e) the industrialization process has created inequitable income distribution pattern within the economy.

The issues raised above are however broad generalizations raising questions that encompass much wider aspects of industrialization policy itself. A discussion of the past industrialization strategies and experiences would therefore, serve a useful purpose in understanding the forces that worked and their implications on the industrial policy of South Asia. The need for industrialization in these countries has never been in dispute; what is in dispute is the strategy of industrialization followed in these countries over the years, the pattern of industrialization and the industrial structure that has been developed.

Industrialization policies have political dimensions and therefore ideologies are involved both in the choice of strategies as well as the choice of industries. The economics of South Asia took the form of a mixed economy where the interplay of the private and public sector was considered a desirable policy decision and the allocation of economic resources was sought both through market forces as well as judicious government interventions. Though to the economies of India, Pakistan and Bangladesh started out in 1974 with a considerably different level of economic development, and these differences are still relevant even today, a common dominant theme in the policy matrix during this entire period is clearly discernible. In the industrial sector it is seen that (i) the policy response of the government was particularly important to the role of growth of manufacturing sector

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where a combination of protection and promotion schemes were decisive in the choice of industries, their size, location and efficiency, (ii) there was a definite bias in favour of bureaucratic control for decision-making either through direct administrative control or indirect control through bureaucratic decision-making influencing the allocation of resources, and (iii) the government's policies and incentives were suspicious of foreign direct investment. The similarities need not be pressed too far as the trend, emphasis, spirit as well as the objectives were not always uniform or consistent among the countries.

For an analysis of the policy trends, it is possible to divide the period in terms of industrial strategies that were dominant in the government policy. First, came the import substitution regime followed by the export-oriented strategy of industrialization. For Pakistan and Bangladesh (which was part of Pakistan known as East Pakistan until 16th December, 1971), the import substitution strategy was the result of the part of adjustment from partition in 1947 when it found that much of the manufactured supplies in the country was imported from India while the agricultural materials needed for the same manufactures were exported to India. Thus the development of cotton and jute textiles, leather products and shoes, and soaps, etc. was in response to this. Import substitution in consumer goods industries particularly in sugar, tobacco, edible oil, matches, etc. were given considerable importance. Import substitution remained a major policy for industrialization throughout the period but from the sixties the export promotion was also taken up where the Export Bonus Scheme served the promotion incentive. Throughout the period the free enterprise school had the dominance helped by the bureaucrats who showed a clear performance for them through their policy decisions but public sector was also strengthened particularly in areas where profit was not attractive. Public sector was made to serve a subservient role for industrial development and as a policy once the enterprise was generating profit, it had to be disinvested to the private sector. The whole approach to industrial development was based on classical doctrine where capital was considered the major bottleneck, the incentives and concessions were taken as the dynamic factors and establishment of industries was considered more important than their management and operation efficiently. A good deal of literature of the pre-1970 period has lauded the achievements of Pakistan in her industrialization efforts and her export earnings through the Bonus Scheme. In the 'success story' the social profitability considerations as opposed

/to market

to market profitability was not raised and the negative value added in certain industries were treated as aberrations because of non-adherence to comparative cost doctrine and the absence of free trade regime. In Bangladesh, however, the role of public sector was more important compared to (West) Pakistan, and the growth in industry was basically limited to simple processing industries till 1965. It was during the 1965-70 period that emphasis was placed on the development of intermediate and capital goods industries.

In India, the import substitutions strategy took a different course of action. The demand-oriented process of development was considered less attractive and the plans emphasized on the high growth strategy by advocating the development of heavy capital goods industries. With the given level of industrial development, the resource endowment and the stock of skilled personnel in India Preobrazansky model of industrialization was conceived feasible and desirable. The result was however mixed, the achievements were at a high cost and were at best managerial. India had a considerable foreign exchange revenue but once it was exhausted in 1957, direct controls become more pervasive. But the import substitution policy however, was a basic theme of industrialization since the independence of the country.

According to one estimate the average effective protection in the large scale manufacturing came to around 313 per cent in relation to official exchange rate in India in 1961. The import substitution policy however was based on self reliance and inter-industry linkage rather than blanket policy. Thus in 1954-55 the establishment of purely assembly, packing and bottling enterprises was prohibited. There was also a strict policy to phase out within a very short time all licensing agreements with foreign companies. Development in oil refining, transport engineering, production of consumer durables and actual waves was considerable and the domestic demand was soon saturated. Domestic demand in such industries as metallurgy, general engineering, the chemicals, pharmaceuticals and rubber industries was not fully tapped and therefore, import substitution in these areas offered a great potential.

While export-oriented industrial strategy of development in India actually started from 1961-62, some form of refund of tariff and excise duties inputs of export industries can be found in the early 1950's. The policy was basically based on subsidization and import entitlement for export industries. This created a bureaucratic tangle and sometimes the

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"incentive to export was as great for many industries as the incentive to sell at home". The net affect of the export promotion policy at best was to end the early export stagnation and the export expansion was not as great as in Pakistan. Achievement in the specific field of the export of engineering products, transport equipment, etc. was considerable, as it was also in leather and leather products but in the engineering products, the export expansion was the result of the industry due to the exports of its products. Both the export expansion and the export diversification was the result of taking the overvalued exchange rate off its book.

In the 1970's, the industrial strategy in South Asia has been influenced by (i) the international stagflation, (ii) the oil crisis, and (iii) experience of the past failures in industrialization. The economic policy in the domestic economy is based on (a) thrust towards liberalization and export orientation, (b) emphasis on rural development, and (c) stress upon employment creation and provision for basic needs for the population. In a sense, it is a defensive machanism where it is hoped that without a land reform or basic change in the structure of the economy, and within a power base already existing, the economy will be taken out of its morass and industrial development will be achieved where benefits will trickle down to the poorest segments of the population. As to how this pious hope can be achieved is not clear but it is argued that with the favourable condition that is there is terms of infrastructural facilities, diversified industrial base large uniutilized industrial capacity, better technical manpower, a good foreign exchange reserve and buffer stock of foodgrains, industrialization with equitable income distribution is achievable reality. The case of Singapore, and the Republic of Korea are put forward as success stories of such a strategy without pursuing the comparisons in the context of social and political past and present and the interplay of social and political forces.

The foregoing analysis provided a convenient summary of the basic trends in the industrial policy of the South Asian countries. The analysis though highly broad and simplistic in approach does give an idea of the basic approach and emphasis in the last three decades. The failure of the industrial policy in these countries to achieve something substantial is accepted by all shades of economic thinkers but perhaps the action program for future is not always agreed by them. The specific issues and areas of failure of the industrial policy in South Asia are discussed in detail later.

/II.

## II. REVIEW OF THE IMPACT OF PAST INDUSTRIAL POLICY IN SOUTH ASIA

Industries roughly contribute 25 per cent of the GDP in India, 18 per cent in Pakistan, 10 per cent in Bangladesh and 15 per cent in Sri Lanka. In India the organized modern sector comes to around 18 per cent, 14 per cent in Pakistan and 8 per cent in Bangladesh. The share of private sector in the industrial ownership is considerably higher in all these countries and private sector remains the pivot of all industrial efforts in these countries. In Pakistan where public investment in 1949-50, increased to little over 20 per cent by 1964-65. Private sector investment therefore was the main source of capital in Pakistani industries. The Pakistan Industrial Development Corporation played a promotional role and its contribution was significant in the growth of shipbuilding, fertilizer, cement and engineering industries. In East Pakistan (Bangladesh) where indigeneous entrepreneurship was not forthcoming owing to a number of factors (15), the private investment from West Pakistan, filled the vacuum. The role of East Pakistan Industrial Development Corporation was more important in Bangladesh (the then East Pakistan), which was responsible in prioneering industries in many areas. During the five year ending 1970, its share in total industrial investment was more than 50 per cent. The emergence of Bangladesh brought with its wake new measures of government ownership through nationalization and acquisition of abandoned properties of the (West) Pakistani owners, so that around 85 per cent of all large scale manufacturing enterprises came under public sector. More recently the disinvestment of some of the enterprises and return of Bengali ownership in jute and cotton is expected to reduce the size of the public sector though it may not be significant.

In India, the share of public enterprises in 1965-66 in terms of gross output of organized industry came to around 18 per cent while in terms of investment it came to around 38 per cent. The government invested mostly in heavy industries and this also determined the direction of public entrepreneurship. Upto 31st March 1969, the government investment was concentrated in Iron and Steel accounting for 37.6 per cent, 12.1 in chemical industry, 11.6 per cent in oil extraction, refining and distribution, 8.6 per cent in mining and 2.5 per cent in other industries. (17)

Given the dominance of the private sector in the industries, the concentration of industrial assets in large business houses both in Pakistan and India is another dimension which cannot be ignored. On the eve of

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partition of India in 1947, the concentration of production and capital in Indian hands was already greater than the British managing agencies. "The assets of the Tata group worked out at Rs. 3,000 million; the Dalmia Jain group at Rs. 2,000 million; and the Birla group at Rs. 1,000 million, while the assets of three biggest British managing agencies - Martin-Bura, Bird-Heilgers and Andrew Yule stood at Rs. 284 million, 246 million and 215 million respectively. The biggest Indian monopolies had a far higher level of concentration of capital than the most powerful British managing agencies in India".(17) The government policies were considerably influenced by the big business houses and the muscle of the public sector even in heavy industries could not always cope with the big business houses. This was in spite of the nationalization of insurance in 1956 and of 14 major scheduled banks in 1969, state entrepreneurship in domestic trade of food grains, abolition of managing agencies in five industries namely, cotton, jute, sugar, cement, and paper, in 1970 and the nationalization of import of raw materials in 1970. The state measures taken as a whole which reached its peak in the Third Five-Year Plan, basically helped the growth of private capitalism and allowed concentration of industrial assets in few big business houses.

In Pakistan the concentration of industrial assets was the result of governments' development strategy since 1947. In 1959, only 7 individuals, families or foreign corporations controlled one-quarter of all private industrial assets and one-fifth of all industrial assets. Twenty-four units controlled nearly half of all private industrial assets. The resources, experience, and contacts of the leading private families made them strong contenders whence semi-government corporation sold some of its plants - over two-third of the assets thus sold are estimated to have been brought by the leading families. Government action in this instance strengthened their hold on manufacturing. The largest 7 units controlled in addition Rs. 46 crores of other assets in banks, insurance companies, or trade. It is also reported that approximately 15 families owned about three-quarters of all the shares in banks and insurance companies".(18) The proverbial 22 families of Mahbubul Hug who controlled some 80 per cent of the assets in industry, banks, and insurance in Pakistan in the late sixties had substantial interest in Bangladesh (the then East Pakistan) owning the largest jute mill, largest paper mill and a considerable interest in tea.

/In spite

In spite of the professed concern for the need of fostering agricultural and industrial linkage, the issues were conceived in narrow terms of providing inputs to the other sector while the broader linkage in terms of supportive role, income generation and cross-fertilization was ignored. Thus in India, the loss of jute and cotton acreage by partition was recompensed by increasing their production but the general bias against agriculture in favour of industry was prevalent. Agricultural growth rate not only lagged behind, the economy's performance was basically linked to agricultural input. Thus in 1966-67 the crop failure in India sent the entire economy nocheting downwardes, Foddgrains imports which was 5 per cent of domestic production in the fifties reached to nearly 8 per cent in the sixties (in 1966-67 it came to 14 per cent) and during the seventies it has fluctuated widely ranging from less than one per cent in 1971-72 to 7 per cent in 1974-75. (19)

In Pakistan the ambivalance of the government policy towards agriculture can be understood by the fact that as early as during the first five year plan (1955-60) "it was argued, both inside and outside the Planning Commission, that considering the availability of PL480, it would be waste of scarce material and human resources to give a high priority to agriculture."(20) The impetus to industry on the other hand was unmistakably bold and clear. The bias against investment in agriculture persisted throughout the period upto 1970. In (West) Pakistan the growth of agriculture was achieved by private sector effort while in Bangladesh (the then East Pakistan), the lag in agriculture, among other things caused a situation of greater hardship and stagnation. According to Mason, apart from the flow of high per capita aid to Pakistan compared to India being the most significant factor for her better performance, the agricultural development was the crucial factor for Pakistan's success. In the same view it can be argued, as is pointed out by Stern and Falcon (21) that the difference in agricultural performance in the two wings of Pakistan, (along with other factors) caused a divergence in their achievements.

The lack of agricultural and industrial linkages have caused structural imbalances and restrained the overall growth of the economy. It is a matter of no less significance than between 1965 and 1975, agriculture's share of labour force has remained constant in these countries, the growth rate of agriculture's labour force has been less than the growth of total labour force and that agriculture has been the cause of the lead or lag of the total economy.

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The following table shows the relevant data for South Asian countries:

GROWTH OF LABOUR FORCE IN SOUTH ASIA

| | Total labour force (in thousand) | | Compound growth rate of labour force (1965-75)(% per annum) | | | Agriculture's Share of labour force (percent) | |
|---|---|---|---|---|---|---|---|
| COUNTRY | 1965 | 1975 | Total | Agri. | Non* Agri. | 1965 | 1975 |
| Bangladesh | 19320 | 25520 | 2.8 | 1.9 | (4.9)* | 73 | 67 |
| India | 164569 | 191743 | 1.5 | 1.4 | 1.9 | 73 | 72 |
| Nepal | 4714 | 5597 | 1.7 | 1.1 | (7.4)* | 94 | 89 |
| Pakistan | 16410 | 20800 | 2.4 | 1.5 | 4.5 | 73 | 67 |
| Sri Lanka | 3633 | 4523 | 2.2 | 1.3 | 3.2 | 54 | 50 |

* Figures in parenthesis are questionable as non-agricultural labour force is derived by deducting agricultural labour force from the total labour force and therefore includes unemployed workers also.

SOURCE: Asian Development Bank, Rural Asia: Challenge and Opportunity Federal Publications, Singapore 1978, Table 1-3.2 and 1-3.3 pp. 51-52

Within the industrial sector the distribution of investment between large, medium and small industry can also cause inconsistent set of policies. First, the growth of modern industrial sector if attained at the cost of small industries then the net effect for the economy may be insignificant while it may cause greater hardship and unemployment to people previously employed in the small industries. Second, in some areas of industrial operation the technological and efficiency considerations may dictate the establishment of large scale industries. The small scale industries produce a range of output which are completely different from the large scale industries and they cannot therefore take the place of large scale industries with incremental expansion. In the small scale sector the industrial units expand on the principle of simple reproduction, and as the market grows the units multiply and the extended reproduction becomes typical for the sector as a whole. Third, because of this instead of the small scale sector becoming an adjunct of modern industry as in the developed economics, a dualism in industry is

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created where each operates in its own sphere with little if any input-output flow between them. The use of output of modern industries in the small scale industries sector is limited to yarn in handloom sector and tools and implements in the woodworking industry.

In India, Pakistan and Bangladesh, it was government's policy to protect and hasten the growth of small scale industries side by side with modern large scale industries. Small industries have low energy consumption per worker and low level of fixed investment per worker. From the outset, production in large scale modern factories were given greater importance investment planning and its growth rate was much faster. Though statistical inaccuracies makes it difficult to compare respective performance in India the growth of modern industry was 4 times that of small industries between 1948-49 and 1964-65 (CSO's revised estimate in 1967 put it at 1.7 times instead of 4 times) while in Pakistan and Bangladesh, the contribution of small scale industries to the GNP remained stagnant or even declined. For a lack of better method of estimation, the growth of small scale industry in the national accounts was set equal to the rate of growth of population. (See Lewis, Stephen R., Pakistan: Industrialization and trade policies, Oxford University Press, 1970, p. 2). There is no evidence to suggest that large scale modern industries grew at the cost of small industries and the loss of India there was reserve list of industries earmarked for small scale industries only.

Regional disparity in industrial location was another key feature caused by both economic and political reasons. In India where a certain industrial base was already there before the independence, the new modern industries were perhaps more guided by the economic reasons of locational advantage of industrial raw material and economic infrastructural but here too the industrial development corporation of the State Government had their own grievancess and therefore political expediency did play a role there. Industrial concentration in Bombay, Bangladesh, Ahmedabad, and Calcutta in India are well known.

In the case of Pakistan (and Bangladesh) the most important single political decision which affected the industrialization pattern and location was the decision to locate the national capital in Karachi, rather than in Dacca.[23] This not only decided on the location of industrial plants and business headquarters in West Pakistan but also created a situation of unequal distribution of import licenses and foreign exchange. In an economy where

/the business

the business success depended more heavily on government concessions and patronization, lack of access to the political and bureaucratic support was an importance hindrance to Bengali entrepreneurs.(22) Within the region itself industrial concentration in West Pakistan was very high in Karachi and Punjab while in Bangladesh industries were mostly located in Chittagong, Dacca and Khulna.

Another structural imbalance within the organized industrial sector itself was with regard to development and investment between consumption goods, intermediate goods, and capital goods industries. Although the distribution as between these industries depends to a large extent on the definition adopted and classification made of the industries the percentage distribution may not show the actual problems. What is being underscored is that in these countries "there is too much capacity at the final and too little at the intermediate stages of production; this disparity calls for the importation of more inputs than acticipated, and when the foreign exchange to pay for these imports is not available, it leads to underutilization of capacity at the final stages of production".(14) The lack of capacity for the production of intermediate goods creates a situation where the import-substitution comes to a grinding halt. Thus it is paradoxical that while aggressive import substitution overemphasizes the production of final goods and neglect of intermediate goods, the system creates a situation where import of substitution is brought to a point of saturation. This gave rise to (i) incomplete production cycle in the industrial sector, (ii) establishment of industries with high import intensity, and (iii) underutilization of industrial capacity for the lack of intermediate inputs.

In India, the intermediate goods sector in the mid-sixties came to about one-third of the whole industry. This is however, a high figure due to the inclusion of considerable number of mining industries. In Pakistan the intermediate goods sector came to 12.15 per cent. In Bangladesh due to the inclusion of jute textile, the intermediate goods came to 44.61 per cent, and if excluded it came to 15.37 per cent of the total large scale industries sector. The capital goods sector came to 23.21 per cent in Pakistan while in Bangladesh it came to only 8.21 per cent. As suggested earlier the percentage distribution of the sector varies with the definition and classification adopted and may not show the actual importance of the sector in the economy.

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In all these countries the consumption goods sector occupied the largest place as can be expected in an import-substitution large market economy. Among the consumption goods again products meant for urban rich class dominated. The consumption pattern of the urban middle class and the urban bias in planning created a situation where the tail wagged the dog. Thus cold drink production was found more profitable and was set up earlier than milk plant. In India in the mid-sixties when the urban population was only 1.2 per cent of the total population, it consumed 51.2 per cent of synthetic and artificial fabrics and natural silk, 55.1 per cent hydrau-generated vegetable oil, 52.9 per cent of bakery products including confectionery, 69.4 per cent of all newspapers and magazines, 45.1 per cent of books and 100 per cent of canned fruits and vegetables. The catering to urban population where profit was ensured limited severely the opportunities for the development of industries to meet the basic needs of the poor.

Thus it is seen that the overbearing preoccupation with the growth of GNP and industrialization did not take care of income distribution, nor did it allow greater benefit to a greater number of people. When confronted with statistical data, it was seen that growth-oriented industrialization policy led to a structure and pattern of industrial investment which led to concentration of ownership, bias towards large scale heavy industries without a link between the modern and traditional industrial sector or for that matter between industry and agriculture, the geographical disparity in industrial location was accentuated and an imbalance was created in the growth of consumption, intermediate goods and investment goods. The failure was perhaps greatest in the choice of products and industries, in short, in the direction, trend, and emphasis of industrial investment which was geared to rich urban consumers. Industrial development by-passed a large section of the community in terms of output provisions, employment creation and income generation. The prevailing industrial structure was, in a sense, both the cause and effect of the socio-economic and political vested interest of the national bourgeoisie. Poverty as a result increased both in relative and absolute terms.

/III.

## III. REVIEW OF CURRENT INDUSTRIAL POLICY IN SOUTH ASIA

Industrial policy can be viewed narrowly to cover only the aspects that concern industries directly or it may also be viewed broadly to encompass all aspects of governmental policies that affect industries directly and/or indirectly. It is therefore desirable to briefly outline the coverage of industrial policy in this section of the paper. Our primary concern would be the following:

(a) Priority industries as identified in the plan;
(b) Role of the public and private sectors;
(c) Importance of small and cottage industries;
(d) Relative position of capital goods, intermediate goods, and consumption goods;
(e) Export orientation and import substitution;
(f) Dispersal of industries;
(g) Inter-sectoral linkages, particularly with agriculture;
(h) Role of foreign investment;
(i) Choice of technology; and
(j) Incentive and protection.

Before we embark on a decision of these dimensions of industrial policy, it is needless but helpful to remember that the countries in South Asia do demonstrate differing levels of development inspite of long years of planning efforts due to differences in endowment, past policies and socio-political factors.

Priority Industries:

The Indian fifth plan envisages an annual growth rate of 8.1 per cent. The emphasis has been placed on increasing production of steel, non-ferrous metal, fertilizers, mineral oil, coal and machine building industries. The emphasis is clearly on intermediate inputs, including energy industry touching on the capital goods sector. This prioritisation has to be viewed in the context of India's policy of speedy industrialization with pointed emphasis on the development of heavy industries. This policy caused a substantial and continuous growth of industrial production during the first fifteen years of planning and created a noticeable transformation in the industrial scene. India today is one of the highly industrialized developing countries and India has indigenous capacity in all areas favoured by natural endowment.

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The current priority has been fixed to extend the process of self-reliance and creating indigenous capability is the felt-need areas (4).

In contrast Pakistan's emphasis is for producing basic industrial and agricultural inputs. These include steel, cement, heavy chemicals, fertilizers and agricultural machinery; almost all of which would be classified as intermediate goods. Again, the priorities of the current plan is based on the results of the past plans. Compared to India, Pakistan did not put much emphasis on the development of heavy industries (5).

The Bangladesh First plan placed emphasis on utilization of domestic resources (such as jute, sugarcane, tobacco, gas, leather, timber, limestone, etc.) as well as on the development of key agricultural inputs (such as fertilizer, power pumps, tubewells, and agricultural implements). The development of machinery units, gas-based industries and cement units produced a tilt in favour of capital intensive technology (2). This name under heavy criticism of the donors (3). The new two year plan, inspite of its pronouncement otherwise continues, to favour gas-based industry, engineering and machine building units. This is the compulsion of on-going projects (1).

In Nepal, the fifth plan continues to emphasize the investment required to provide essential consumer goods and processing of agricultural forest and mineral resources available locally (6).

In Ceylon, the industrial policy emphasized the need to make maximum use of natural resources and to develop basic and heavy industry. This led to the development of industries like textile, food, paper, chemicals, cement, tyre and metal products (7).

Role of Public Sector:

Public sector industry in India has played an important and dominant role not only in setting pace for development but also in controlling the commanding heights. Only in the central Government sector, total investment in March 1977 was approximately US$14 billion. Its share in the total industrial output has grown from 8% in 1960-61 to 30% in 1975-76. In addition to the central sector, there are state government owned industrial units. The plan envisages continuation of this dominance of public sector in Indian industrial scene through utilization of spare capacity in sophisticate capital goods sector, intermediate inputs as well as creation of capacity in new priority areas (e.g., power plant machinery, fertilizer and cement). The basic policy of reservation of industries for public sector would continue (4).

/In Pakistan,

In Pakistan, after the vast expansion of public sector industries through nationalization, a reversal in policy has been planned envisaging a greatly expanded role for private industry. New industrial policy keeps a few basic, sensitive and traditional areas reserved for public sector. In the public sector, absolute investment envisaged in the fifth plan in larger than the private sector, primarily because of the compulsion to complete the on-going projects (5).

In Bangladesh also, as in the case of Pakistan, the wind of reversal has started to blow. The investment ceiling in private sector was raised twice and now virtually dropped. Further, revision of industrial policy has widened the scope for private sector investment in areas formally reserved for public sector investment. These are noted to indicate that the reliance of public sector for industrial development is now without the political and administrative support of the government, even though larger allocation has been made for public sector as compared to private sector for completion of the on-going projects (2). The indifference and hesitation of the ruling authority and frequent pronouncements of denationalization backed by donor agencies pressure created an atmosphere of non-performance in public sector industries; even then their performance continued to improve on the whole (8).

In Nepal, the dominance of public sector is the result of the absence of a native industrial entrepreneurial class and because of the concentration of available investible resource in the institutions of His Majesty's government. The option of a viable private industrial section is for all practical purposes not open (6).

In Sri Lanka, till the installation of the current government, the public sector was dominant in the modern industrial sector of the economy. But the current policy is to limit the growth of public sector, and allow a free play to private investors within the promotional and regulatory laws of the government.(9).

Thus, we find three typologies in the South Asia in respect of the public sector. First, exemplified by India, where the role of public sector has been stabilized and it continues to be important and in certain specific areas dominant. Second, exemplified by Pakistan, Bangladesh and Sri Lanka where the pendulum swings from a supportive role to a dominant role to defensive role due to changes in the political regime controlling the

/state and

state and its machinery. Third, exemplified by Nepal, where the dominance of public sector is the result of the quest of a benefactor in search of modernization and consolidation of power. One common feature of all these economies is the presence of a mixed economy where the social forces and interplay of bureaucracy, politicians, armed forces, technologists and foreign interests manifest the characteristics of an intermediate regime (11).

Small and Cottage Industries:

The countries in South Asia are characterised by low urbanization and numerical predominance of villages and rural population. In the scale India and Sri Lanka would stand far out compared to Bangladesh and Nepal. Even then the importance of the villages in the economy of these countries remain. In the context of the countries it is important to create conditions for increased agricultural output as well as to create employment at the doorstep of villages in the interest of reducing rural poverty and limiting the growth of slung in urban areas.

Indian Policy makers have recognized the potential need to protect and expand the cottage and small scale industries in the interest of employment creation in rural and semi-urban areas. This emphatic recognition was absent in earlier plans. The neglect of the sector is manifested by general absence of adequate information about the sector; as well as absence of any coordinated effort of assistance in terms of training, marketing, finance and research. This is not to deny presence of schemes for development and assistance to some cottage industries. The fifth plan provides for an expanded program to develop cottage and small industries in rural and semi-urban areas. But the plan lacks a definitive policy in respect of employment and earnings in this sector and unless the artisans and small manufacturers are helped to earn a competitive living in the face of deteriorating rural-urban and inter-class terms of trade, mere allocation of funds and creating of official machinery would be infructuous (4).

The reading of the Pakistan plan fails to convince any reader the concern of the government to promote the small scale industries whose potential is recognized but whose constraints received no closer examination by the policy makers (5). The situation is no better in Bangladesh inspite of the presence of a small industries corporation, a Handloom Board and a sericulture board and pronouncements of support by the highest authority in the country

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to provide assistance to small and cottage industries in the interest of employment creation and income distribution (2). In Sri Lanka and Nepal the manifestation or urban bias is also present. Nepal proposes to decentralize administration of assistance to small industries and provide marketing outlets in the same manner as was manifested in the early days of Indian and Pakistan planning effort (6).

Relative Position of Capital goods, Intermediate goods and consumption goods:

It is rather difficult to assess the relative emphasis in the current industrial policy on any of these four categories of goods without first knowing the industrial base and also without knowledge of the potential of such industrial ventures. The case is further complicated by the fact that aggregate data do not provide this four-way classification.

In the Indian fifth plan dominance of capital and intermediate goods is quite clear; and this is in keeping with the past trends in industrial development. However, in the cottage and small scale industry, the relative dominance of consumption goods have been maintained.(4). In the Pakistan plan, public sector investment continues to emphasis capital goods and intermediate goods industries, while the private sector industrial outlay is given a consumption goods bias particularly in the textile and food industries. The consumer goods industries in private sector would approximately account for 70% of planned outlay in private sector (5). In Bangladesh a similar position prevails. Because of the predominance of on-going projects in the engineering and chemical sector, capital and intermediate goods predominate; the picture does not change with the addition of large investment planned for textile sector; the mills are to produce yarn for handloom sector. The reliance is on private sector to feed the domestic consumer market. In Nepal the import substitution and basic needs strategy has been underscored by including consumption goods unit in the public sector. Self sufficiency in essential consumer goods is one of the basic objectives of industrial development in Nepal (6).

The relative importance of capital goods, intermediate goods and consumption goods in the industrial sector plan certainly reflects the relative level of industrialization of the countries concerned. India being the most developed country, the relative importance of capital goods sector

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manifest itself. Further the capital goods sector in India is aided by the size of the internal market, the basic resource availability and export rebate policy followed by the government. Compared to India, all other countries are handicapped by limited nature of the market and/or resource and skill constraint. In case of India, the plan strategy from its very inception helped creation of linkages and basic skill for a sizeable capital goods sector. This has been absent in other countries. The impressive presence of engineering sector in Bangladesh is not a manifestation of a conscious strategy for development of capital goods sector, but continuation of the projects underway in the context of a unified Pakistan.

Import Substitution and
Export Orientation:

Industrialization depends on finding market for manufactured products. Finding market internationally for a newly developing country is always difficult not only in terms of cost advantage but also in the context of developed marketing expertise in the older countries. This logic alone makes the developing countries inward looking for marketing its manufactured products. This compulsion gets further strengthened as the foreign exchange remains the scarcest resources for many of these countries. Further preference for capital goods import in the interest of development plans, makes the entry of a large segment of consumer product restricted through tariff, quota, licensing and other barriers. Thus industrialization strategy has in an open or covert manner, adopted import substitution as a plank in the overall approach. This approach may not reduce import till as intermediate inputs requirement may soon become quite substantial. Nor would this approach achieve efficiency, as protected market provides a margin higher than that is at least theoretically available from open international market. Thus import substitution, at least till effective rates of protection is made negligible, would mean higher cost of supply from domestic sources and provide for higher profit to the entrepreneurs-capitalist. The import substitution seem to promote expansion of those products which seem to have high income/status elasticity. These are not the basic needs group.

The Pakistan plan favours import substitution industries in order to conserve foreign exchange (5). In the context of united Pakistan, import substitution did provide the initial impetus for output growth of industries but the importance of this source decreased and later reversed (12). In

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this background the extent of the need for import substitution as a promotional measure can only be understood in the context of severe foreign exchange shortage.

Nepal is in its early stage of industrialization and thus import substitution policy enunciated in the plan seem to follow the beaten track of the growth process. Bangladesh suffers from a critical shortage of domestic financial resources; while aid is liberally available. Trade has been liberalized in view of the increasing availability of foreign exchange from remittances abroad. Thus the luxury consumption is met through high-cost imports and scope for expansion of consumption goods seem to be limited not only because of the size of the market but also because of the inequity in income distribution. The investment schedule for private sector provides a substantial amount for import substitution but in effect such investment seem to be hesitant. The government seem to be more concerned with possibilities of import substitution vis-a-vis existing capacity primarily in the region of intermediate goods and certain capital goods (2). This is a case by itself.

Indian industries always benefitted from large domestic market which allows for economic scale of operation and competition. There has been almost total import substitution in the consumer goods and because of the support from technological adaptation and supply of industrial labour, India has become outward-looking in its approach. Indian plan more consciously portrays the desire for export promotion. The desire for increasing industrial export is present in Pakistan's plan as well as in the development plan of Bangladesh. But no conscious identification of areas or policies can be found in the plan (2).

The logic of promoting industrial export comes from the same balance of payment dimension which also strengthens import substitution logic. In addition competition in export market is said to increase efficiency and cause allocation of resources as per dictates of comparative advantage. But export promotion has been a difficult game in the face of tariff, custom union and efficient marketing by developed countries. The hope, it was thought, could lie in mutual co-operation of the developing countries but such co-operation inspite of many inspired discussions did not result in any significant shift of trade amongst developing countries primarily due to the interplay of aided imports. Hence the export orientation has received much less attention than its counterpart.

Dispersal of industries:

All locations are not equally attractive for industries. Localisation theories are quite wellknown. But dispersal of industries have become desirable for political as well as social reasons. The recognition of this is found in all preceding plans as well as current ones. But there has not been any effective dispersal of industries in any of the countries in the South Asian region. The consolation for non dispersal seem to be had from the lip service provided to small and cottage industries.

Indian fifth plan recognizes the regional imbalance in industrial development. The policy of correction as preposed and earlier followed was to locate central government projects in less developed areas which caused large outlays in the development infrastructure without any proportionate spread effect. The efforts of promotional agencies could not offset the pull of closeness of output market or input supply. Even the policy of subsidized financial capital for backward areas did not have much effect as misuse of this subsidy was quite normal (4). When India has failed to implement a policy of regional dispersal through direct, administrative and market intervention; it is easy to imagine that such a policy had similar or even worse fate in Bangladesh, Nepal, Sri Lanka and Pakistan. Industries seem to lie close to big cities where the pull of market and administrative infrastructure seem to be quite irresistable.

Inter-sectoral linkages particularly with agriculture:

It is now common knowledge that various sectors of the economy are linked through a system of demand and supply relationship. This intersectoral dependence has helped the formulation of reconometric models and the input-output matrix which are commonly used in formulating the plans. The basic idea of such an exercise is to ensure in-step development of the sectors and/or where such development is not possible, remedial measure for the gap be pre-identified such an idea had led to the concept of balanced growth which pre-supposes a relationship between sectors which could be expressed in terms of a given co-efficient which varies according to the nature of the economy i.e. resource endowment, state of development and the nature of technology. Such a coefficient cannot remain static and/or stable overtime in the case of a developing economy in quest of a structural change. Without getting involved in the controversy

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of balanced and unbalanced growth, comparative-statics and dynamic models, it is known that the plans are built on and generally seeks inter-sectoral and inter-regional linkages in the interest of economic and political integration. Without getting into the concept of a multi-sector models, the quest is to create a meaningful relationship of inter-dependence of primary, secondary and tartiary sectors, i.e. between agriculture, industry and service sectors.

The linkage of the primary sector with the secondary sector is often expressed through the general policy/guideline for utilization of available local resource for the development of industries. Thus Bangladesh first plan emphasized utilization of domestic raw materials (viz. jute, sugarcane, tobacco, soft wood, leather, gas, clay, limestone, etc.) for the development of process-industry on the one hand, and in return promised to develop industrial inputs for agricultural development (viz. fertilizer, power pumps, pesticides, etc.). Even though the two-year plan does not specifically mention these linkages in its objective for industrial development, the programme outlined continues the policy of the first plan. Not only that the agricultural input to gross value product of major industries (viz. jute , sugar, paper, cigarettes, leather, timber, etc.) are high, the industrial input to improved and increased agricultural output has increased overtime (13).

The linkages have been very effectively articulated in the Indian fifth plan. The plan envisages an average annual rate of growth of seven per cent. The stimulus to the growth is expected and planned to come for a wide range of commodities because of the activities being undertaken in the agriculture, infrastructure and allied activities (4). Similar intensions are expressed in the sectoral plans of Pakistan and Nepal, as would be expected (5, 6).

Role of Foreign Investment.

Foreign investment is a sensitive issue. The basic argument in favour of foreign investment was its helpful influence in transfer of technology and development of a productive culture. But the basic reality has been immeserisation of the economy. Foreign investment may help set up industry and may in fact increase production but it can leave its best country worse off. This situation arises from the foreign economic control that comes with foreign investment. This situation results from the fact that foreign investment

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concerned with maximization of profit allies itself with forces that increases rigidities and inequities. Foreign interest come into those areas that yield quickest and biggest profit through generously provided concessions and cleverly arranged transfer pricing with rights to draw on the resources of the country enjoying all the privileges but not having allegiance or obligation to the interest of the host country. This inequitable relationship was generally over-looked because of the resource gap which called for toleration of the power gap in fabour of multinationals.

India has followed a conscious policy in respect of foreign investment on terms and conditions to be dictated by interest of the country alone and this interest is interpreted not in terms of increase in productivity but in terms of its impact on the economy. Indian policy makers followed a policy which over the years have seen a programme decline in the role of foreign investment; India through its foreign exchange regulation act, and other policies restrained growth of foreign companies except in low priority areas. The dominance of foreign company is restricted to drug and few consumer goods industry. Through a defined policy of joint collaboration, India developed its capital goods sector and helped the growth of indigenous technology (4).

Bangladesh, in the initial years of liberation, defined a restrictive foreign investment policy requiring them to come in collaboration with public corporation as a minority share-holder with a prospect of managing agency for a limited period. Before the policy could be given a fair trial, political changes occured opening up all doors of concession and lifting all but minimal restrictions of foreign investments with the reversal of policies in Sri Lanka and Pakistan, foreign private investment has regained their position with the policy makers. All these three countries are speaking aloud of policies for locating foreign investment in the processing zones in their territory with attendant results on prices and local industrial development.

Choice of Technology:

There is virtually no technology policy in any of the South Asian countries except India; although there has been some fluttering awareness. This is not only true of the industrial scene, but also of the other sectors as well. These countries are absolute takers of technology along with foreign aid. Thus beggers not being choosers, the technology question has remained a dormant issue.

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India's concern about technology is primarily caused by concern in respect of employment. In a labour-abundant country, the logic of labour-intensive methods of production is evident. Though care should be taken to note that the prescription is in the macro-context and it can accommodate highly capital-intensive efficient surplus generating technology in a desired micro-environment. In order to achieve the macro-level labour intensity, the only effective way is to regulate technological change in a manner that allows for a desired rate of growth in employment. It is easier said than done. The imported technologies are developed in countries which have quite different factor-endowment and quite different social reality. Though the dominating social forces prefer a capital intensive efficient technology, which allows for quick return of investment, the social reality dictates a different course of action. Resolution of this contradiction in a society controlled by capital interest group is indeed difficult. Indian plan provides for research to identify appropriate technology for increasing productivity without displacing labour in cottage and small industry. Whether a dual technology policy with demarcation of zones would perform task is indeed questionable as this is likely to create inequities through technology dualism.

Incentives and Protection:

Protection has been termed as cost and its measures have also been devised. Subsidies have been criticised on the same account. But rarely a voice has been raised against incentives to private investment. The same international agency which gets worried about fertilizer subsidy goes to recommend "incentives" to promote private investment. This manifests not only a mental block and the urban bias but also the class identification with the national bourgeoisie.

The less developed an economy is, the higher is the lure of incentive. Nepal plan does not spell out the incentive structure, (6). Sri Lanka has gone a long way in reversing its role for promotion and protection of private investment. Pakistan promises of tax holiday, liberal subsidized credit, concessional rates on imports of capital equipment, free processing zones and so on (5). Bangladesh has not lagged behind in providing concessions. (2)

CONCLUDING REMARKS

A review of industrial policy convinces one that there has not been any basic change in the industrial policy of the South Asian countries since

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the inception of planning. The structure of industrial policy remains the same and its evolution is dictated by the development in the earlier plan period.

India stands out as a more conscious planner, as it has always been. But even there similarities with other South Asian countries are quite clear. The difference in nuances are more called for by the imposition by the dictates of national bourgeoisie; but the class interest of the dominant group in the different countries in the region are same and this similarity has been reflected in the industrial policy of the concerned countries.

The shortfalls in the realizations of the proclaimed equity goals as set out in the five-year plan of the respective governments and the actual achievement, are many. First, the objective function is not backed up by operational policies primarily due to a lack of concern for the unequal distribution of income and its resultant hardship on the low income groups. Second, there are certain economic forces which make the development process and unequal income distribution of income go together because of the structural problems of the economy. Some of the aspects of urban bias in rural planning also come in this category. Third, the socio-political power structure in the economy leads to preservation of their economic interest and since they ultimately decide on the allocation of scarce resources, the rich and the powerful get the most at the cost of the power. It is our contention that development process is not a defence mechanism to contain the poor from becoming restless and revolutionary, nor it is an incremental change within the given structure of the economy where stability is achieved through conflict resolution between the rival forces without land reforms and structural changes. Development with equitable income distribution requires a complete rational readjustment of the socio-economic and political structure of the economy.

A lack of concern for unequal income distribution with development arose because the intellectuals, political leaders, and development economists, with their new classical conceptual bias, assumed development to be increased in output (i.e. growth) and once it was taken care of, the distribution aspect could be left to the price and market mechanism. Thus if one group was the chief beneficiary of the fruits of economic development, it was because of their scarce entrepreneurial capability or professional skills and those that did not, were less efficient or unworthy. If maldistribution arose, it was because of prices distortions, and manipulation of prices to curtail consumption

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and real wages (especially in export industries) would achieve faster growth and balance in the country's external accounts.

the association of unequal income distribution and the development process has economic explanations. It was Simon Kuznets who, relying on 15 per cent emperical information and 95 per cent speculation advanced the proposition in 1955 that "in the early phases of industrialization in the underdeveloped countries income inequalities will tend to widen before the leveling forces become strong enough first to stabilize and then reduce income inequalities." (37) The economic inevitability of development process and unequal income distribution, however, received a shocking jolt when it was seen that the magnitude of inequity in the developing countries is far in excess of those found in the developed countries in their early phase. Adelman and Morris have found that in 21 out of a total of 40 developing countries for which data are available, the average per capita income of the poorest 20 per cent of the population is less than 28 per cent of the national average. (38) Thus the problem is not just limited to the least developed countries, it is a more general problem for all developing nations. But in the South Asian context the severity of the problem can be understood by the fact that almost half of the population have abysmally low per capita income, as is shown in the table below:

Table: Income shares of decile groups

| Country and year | Entire Economy | | Rural Areas | |
|---|---|---|---|---|
| | Poorest 40% | Richest 20% | Poorest 40% | Richest 20% |
| Bangladesh (1963-64) | 18.0 | 44.5 | 18.5 | 43.0 |
| India (1963-65) | 16.0 | 52.0 | 20.0 | 42.0 |
| Malaysia (1970) | 11.6 | 56.0 | 12.4 | 45.7 |
| Pakistan (1963-64) | 17.5 | 45.5 | 18.0 | 43.0 |
| Philippines (1971) | 11.6 | 53.9 | 13.3 | 51.0 |
| Sri Lanka (1973) | 15.1 | 45.9 | 17.0 | 42.7 |

Source: ILO, Poverty and Landlessness in Rural Area, A WEP Study, 1977, Table 4, p.20

The economic reasons for the inequitable income distribution associated with economic development are many. We shall mention some of them here.

First, the dualism in the structure of a developing economy, that is, the existence of technologically modern sector side by side with the institutionally backward sector, causes unequal flow of income. The greater the economic development faster is the growth of the modern sector and hence inequality, and conversely low growth or low growth potentiality e.g., low resource endowment of the country, causes less income inequality. Thus economic development itself is one of the prime causes if not the only cause of income inequality.

Second, there exists a high correlation between the level of unemployment and underemployment and the level and magnitude of income inequality. In developing countries where monetary and fiscal measures are less affective in correcting unequal income distribution, the provision of employment remains by far the most important means of income reallocation.

Third, and this is a related point to the second, when rural population migrate to the urban areas and get employment, they create a demographic imbalance by increasing male/female ratio and reducing the birth rate in the urban areas while increasing the rural population as they frequently return to their families. Thus agricultural work force in the long-run remains constant giving rise to income inequality.

Fourth, there seems to be a high correlation between education and the level of family income. Though it is difficult to assign any causation to either absence of formal education and family income or low family income as a reason for children not going to school, the fact that they tend to go together seems quite interesting and may be important for policy decision.

Finally, the social and political power of the national bourgeoisie determing the allocation of income and resources have been focussed more recently after the failure of the development benefits from spreading between social class, areas and regions.

In this context of social stratification and failure to achieve equity, we may review some of the policies persued in the South Asian region for development. The discussion will focus on pricing of capital,

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pricing of labour, pricing of other inputs; control of means of production; opportunities for education; fiscal policy, choice of technology and distribution of outputs for various consumer groups.

The effective cost of capital in all the countries of the region remain low compared to the opportunity cost as investment in physical stock is considered to be most important input for development. Thus an access to this source of subsidised capital favours a group and discriminate against others. Underpricing of capital is done through changing of low interest rate, low duty on capital equipment, over valuation of currency, tax rebates of various kinds and investment incentive schemes. These policies are still being persued and in some countries with relative underdevelopment still very rigorously advocated without realization of its effective distortion in allocation of resources. In contrast, the price of credit for small farmers is burdened with higher interest rates, hidden real cost of procurement and administrative barriers, Even in the case of industry, cost of capital comes to be cheaper for big entrepreneur compared to a small investor.

In terms of the price of labour, the direct intervention is much less. Only legislation that exist is in terms of minimum wage and the statutory fringe benefits. But the actual payment to labour, except in the case of organised public sector and foreign enterprises, is difficult to determine. Further, in the rural sector, because of seasonal variation in employment, migration and variation in wages, a consolidated cost is difficult to estimate. But it is known that rural real wages are low and except for India, it has been declining; again the urban wages in organised sectors are higher than rural wages and urban wages have failed to keep pace with increase in prices; further wages as a share of output compared to profit as a share of the same demonstrated a relatively weaker position in all countries, with the exception of certain public sector enterprises. Thus while government policy induced use of cheapened capital, it failed to protect the interest of labour.

Inputs in industry in terms of energy, training, physical infrastructure, research have remained traditionally free or underpriced. Comparatively the inputs in agriculture in terms of water, fertilizer,

/pesticides

pesticides and seed have remained inadequate or relatively more economically priced. The input of education and research in agriculture has remained comparatively low.

At the root of the equity is the ownership and/or control of productive assets. As inequity increased, control of the means of production in agriculture gradually moved in favour of the large and medium farms. The tendency varies between countries of the region but the trend is generally the same. In the industrial field, government policy of mixed economy, equity participation, disinvestment of productive units, management contracts and subsidised capital along with market protection and high profit resulted in further intensifying the skewed nature of asset ownership. Only attempt in asset redistribution had been abolition of landlord system with adequate compensation which in India produced consolidation and commercialization of agriculture with marginal redistribution. The general consensus is there may not be enough productive land to redistribute. The nationalization of industries in Bangladesh did restrict growth of private ownership of asset in this sector. None of the governments considered seriously redistribution of existing assets, rather some policy enunciation of restricting growth of asset ownership in fewer hands have found place in plan documents but was never translated into action with the intent of reducing inequity. Thus the socialization of the means of production continued to remain a vision at a distance.

Most important of all policies for equity is perhaps the equality of opportunity which is denied as a result of unequal distribution of property and resultant privileges. The access to quality education remain in the hands of few who are owners of physical assets. There has not been any meaningful attempt to make quality education available to the mass, particularly to the low income group inspite of increase in number of schools and growth in technical education. In the south Asian countries education remains largely subsidized, particularly higher and professional education. The cost is brone by government revenue which comes largely from indirect taxes on consumption. Thus there seem to be a subsidy given by lower income group who pay most of the indirect tax for the education of relatively higher income group who have access to quality education. Whether education necessarily assures higher income is a question that may be raised, but there may be no question about the fact education for lower income group provides them with greater economic and social mobility and thus possibility of higher income.

/Fiscal

Fiscal policy is a known means of market intervention. It can influence the price and availability of inputs and output. It can also help transfer income from one sector/section of people to another. Progressive taxation on income and wealth and estate duty have been cited as fiscal instruments for preventing growth of income inequality. But countries in South Asian region, following a strategy of mixed economy and desiring growth of capital have preferred to follow proportionate or moderately progressive income and wealth tax and these have not worked as a deterrant to growth of inequality. Most countries of the region preferred to provide income tax concession for investment of income or of retained profit which furhter increased inequity. It is normally said that the scope for expanding role of direct tax in developing countries of the region is limited; further class identification, kinship relation and maladministration allows for large scale tax evasion. Taxation of property and of laxury goods donot seem to have progressed to the extent possible. In this connection it may be recalled that private sector industries often moved into luxury consumption goods because of the profit opportunity and non-existence of high tax on such consumption. (28).

We have earlier mentioned that most countries of the region have no conscious technology policy. But the state of technology and the nature if technical progress does influence distribution of income as they have direct relevance on the demand for factors of production. A technology which can use semi-skilled or unskilled labour, would in theory help increase demand for such labour and increase their absolute earning. The cheapening of the cost capital, easy availability of imported technology, tied nature of technical aid and fear of labour disturbance have moved the technology bias in favour of capital-intensive one.

Further, governments in the region have supplied since the world war II selected essential consumer goods, primarily in urban areas and mostly taken advantage of by middle and higher income group. This has meant subsidy to a group, other than those most disadvantaged one in the society.

The combination of these policies strengthened by the grip of the power elite on the policy making process made the inequity inevitable because of the persuance of inequitable policy and perpetuation of inequitable relationship.

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## IV. BASIC NEEDS ORIENTED INDUSTRIAL STRATEGY

The failure of economic growth to trickle down to the mass of the people and the widening gap between the rich and the poor in a country especially the lowering of the standard of a substantial number of people to abysmal poverty led to an emphasis on employment policy. Thus in 1969 the ILO set forth that one of the most effective means of ensuring that higher incomes and living standards were achieved for the masses was to provide them with more work opportunities and more productive work to do. It was soon found that though a major symptom of poverty was unemployment, a review of evidence in developing countries suggest that open unemployment may remain constant while the level of poverty as well as the number of people affected by it may increase substantially. The emphasis was therefore shifted to re-distribution with growth in 1974 (27). This is a new development strategy which puts a greater and more emphasis on employment creation for the poorer section of the people, secure a wider distribution of the benefits of growth and development and provide a minimum consumption basket of goods and services to the poorest to meet their basic needs as human beings.

The basic needs concept as propounded in the report (29) advocated minimum consumption objectives in terms of food, clothing, shelter, education and health and also recommended participation in the policy making and programme implementation. These specific items were taken as a proxy for the larger basket of consumption requirements (basic needs) and then it was converted into an income equivalent by estimating from household expenditure data the level of income necessary in each country to satisfy the basis household needs. The aim is directed to ameliorating the economic condition of the poorest 20 per cent or of the population within one generation (i.e. the year 2000). The calculation is naturally sensitive to the estimates of household expenditure data one which it is based and on the projected growth rate of population. For South Asia where food deficit would remain a major worry and the percentage and absolute population in the lowest quintile is substantial, the target of basic needs provision would be a stupendous task. Income redistribution would play a far more significant role in the success of the basic needs strategy.

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If the target of the basic needs concept is quite clear the means to achieve it and especially the verification of it would remain a challenging task. Because of certain conceptual ambiguity, it is possible to attach different incomings to it and thereby degenerate it into a political slogan. Nor is the basic need strategy need be an attempt to reintroduce 'the intermediate technology' of Schumacker or 'the informal sector' of the ILO. It should be an anti-poverty approach but not necessarily an anti-larger-scale industry approach nor does it propose 'inferior' technology or substandard quality goods for the poor. It is based on the idea of mass production where production is for the masses.

Basic needs oriented industrial strategy would require breaking away from the past trends of diverting resources for the urban rich to rural poor, choice of production of basic be needs goods rather than luxury goods, and labour intensive technology for the creation of more productive employment in industry. Technologies for basic needs will have to be evolved within the economy which means greater emphasis and reliance for the development of indigenous technological capability. The whole aspect of technological policy will require reassessment to achieve flexibility within prevailing investment structure for directing investment towards basic ne is. One way to approach the problem would be to make efforts to seek out 'appropriate products' which will lend to the selection of 'appropriate technology'. Thus technology should be viewed not only from the supply side when the demand for the product is taken as given and then considering its factor proportions, but also from the demand side where the choice of appropriate product for the mass consumption may meet the basic needs of the people and offer greater factor substitution possibility in favour of labour. The supply-oriented technological policies often lead to the production of many western products that are not so much of higher quality as of irrelevant quality to a large segment of the population of the developing countries. The aspect of demand-oriented technology is emphasized by Frances Stewart who suggests that change in the product on industry mix through changes in the consumption pattern can lead to the choice of appropriate technology for the developing countries. In the past the discussion on technological choice excluded the question of product subsitution by assuming identical attributes and quality of product. But in practice it is seen that consumer needs can be met by a range of different products and if

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the particular choices are made depending on consumer purchasing power and in relation to their basic needs and requirements then it can be a powerful tool in the policy to fight absolute poverty of the masses (39).

The role of the public sector in both the production and the marketing of basic needs goods will be crucial in the success of any industrial policy committed to basic need objectives. These are areas where even a regulated private sector would be inappropriate. Establishment of public sector enterprises. The reason is that private firms with monopoly power may choose products or prices that allow super normal profits and control of market. The danger is considerable in sectors like food processing, pharmaceuticals and production of building materials. In most cases their products will be geared to people of high income level, if left to private sector, and at a price beyond the reach of a large segment of the population. In these areas governments regulatory control or directors also prove to be mostly incomplete and ineffective.

The public sector, secondly, is expected to be more effective in the production of basic needs goods because it is then given a greater command and responsibility for a growing part of output, employment and capital of the country. Since in a poor country due to low GNP and per capita income as well as highly unequal income distribution, the aggregate demand is largely influenced by the consumption habits of the rich, the private sector cannot be expected to gear their production to the needs of the low income group. In these areas as suggested before, it may become necessary and indeed imperative to choose products for the low income groups and even try to influence the consumption habits of the masses. Then again in the production of basic needs goods, the need for lower price and subsidy comes where the government can be more effective, if the production process is in the public sector. The underlying aim of the public sector will be to produce 'fairer' composition and distribution of products than can be provided by the market forces. Thus equal as opposed to income determined access to basic needs goods will be guaranteed by the public sector and it will restrain the arbitrary and unjust structure of income and power from misallocating the scarce resources of the country.

The public sector jurisdiction in the production of basic needs is important, thirdly, not only because in this area the volume, type and cost of its activities greatly influence the welfare of the people, but also

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because there are external economies and benefits associated with the production which cannot be left in the private sector. In areas like health and education where economies of scale are considerable, if left with private sector, it can have potential for unequal income distribution. Provision of basic needs goods is the best form of incomes policy which is not just limited to the formal wage-earning sector but transcends to the rural masses.

The need for the marketing of basic needs product through the state agencies for equal access to them by all sections of the population cannot be over emphasized. In fact the success of the policy of ensuring equitable access at non-discriminating prices for the poor to basic needs goods would depend entirely on this. The policy also encompasses the need for preventing better off income groups from obtaining direct access to reserved market for basic needs goods or indirect access to them through black markets.

The performance of the public sector industries however, cannot be successful in the production and marketing of basic needs goods unless a political discipline is there. It is likely, indeed very much possible, that the public sector may become a tool in the hands of the political party in power which has vested interest especially influenced by the rich and industrial class who can easily subvert the original purpose and till the balance against the poor. The political regimes in India, Pakistan and Bangladesh have far too often used the state apparatus to plunder the poor and down-trodden to enrich the national bourgoisie.

The basic need oriented industrial strategy cannot achieve any thing substantial in isolation and therefore must be linked with the overall economic framework of national policy. Since more than 80 per cent of all target poverty groups in South Asia are located in the rural areas, achieving subsistence will remain the major objective of the agricultural sector in these countries. The commitment of the national government to eradicate the absolute poverty of the lowest quitile backed by a concerted and consistent effort will remain an important ingredient of the national planning. Increase in basic needs output, growth with income redistribution and employment creation for the poorest of the poor will require a set of interventions by the government. This would entail (a) altering the functional distribution of income through policies designed to change the relative factor prices, and (b) modifying the size distribution of income

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through equitable distribution of asset owners, restraining the growth of income of the upper income group through progressive income and wealth tax, and (d) increasing the growth of income at the lower income bracket through direct transfer payments and the public provision of basic need goods.

Although the problems of international policy in terms of aid, trade and foreign investment are almost ignored in the discussion of basic need strategy of economic development, this is the area in which the rich countries have perhaps the most powerful impact - for better or worse - on employment, income and consumption basket of the people in the LDCs. In fact it can be very strongly argued that the global disequilibrium in the incidence of unemployment and relative as well as absolute poverty in the LDCs can almost entirely be accounted for by the relations of the rich and the poor countries. As Singer has pointed out:

"(a) That the present relations between rich and poor countries are not only consistent with, but also contributory to, this disequilibrium with heavy persistent unemployment in the LDCs; and (b) that reforms in the present relations of the two groups of countries among the counter-influences which are required to improve the situation, or even to prevent it from worsening."(40)

Thus the policies of the developed countries with regard to trade, aid, private investment, science and technology and international liquidity towards the developing countries would play a crucial role in the success or failure of the national government in the achievement of basic needs objectives. It is not unrealistic to assume that the transfer of resources of the developing countries to the basic need objectives might curtail the production of industrial raw materials and minerals which are supplied to the developed countries. This would perhaps limit the growth rate of the developed countries who may in turn react by developing the terms of trade against the developing countries. Thus a conflicting interest situation can arise where the developing countries would be worked out in the competition.

The basic need objective of the developing countries is already viewed with a different meaning in the developed countries. Some have seen in it the bright prospect of unloading second hand machineries to developing countries; some have taken the position that developing countries should

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concentrate on agriculture primarily at the neglect of industry and if industries are developed at all they should be basically small-scale consumer goods industries.

The seriousness of the problems of unequal income distribution, unemployment and the relative and absolute poverty in the developing countries, particularly in South Asia has been discussed to emphasize upon the complex range of causes underlying them and the need to formulate a policy for combating them. The discussion of the problem and scale of effort involved in this is immense. Even a moderate achievement in this regard will involve major changes in government strategy at the international, national and local levels. This will also require major changes in the behaviour and attitude of the institutions and individuals and in the scope of the public and private sector. The strategy needs a complete break from the past where the traditional tools of economic analysis as well as even the statistics available may be inadequate for an integrated plan for the achievement of growth with redistribution, employment and provision for minimum of basic necessities for the masses. The framework of the national accounts will have to be reoriented to emphasize upon the growth of the income of the lowest quintile of the population. It is quite likely that the basic needs development strategy will threaten the vested interests of the socio-economic and political power group who will resist any structural change which is necessary for the basic needs strategy. The resistance will not be limited in the local and national level, the most strong resistance will perhaps come from the developed countries and the international agencies. It is therefore emphasized that, apart from the technical-economic requirements of the basic needs strategy, one must be very clear about the socio-economic and political implications of the strategy.

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## V. CONCLUSIONS

There may be various approaches to Industrialization with equity depending on the nature of politico-economic regime of the country. First approach would basically insist on maximization output through a policy of full employment. Assuming no rigidity or imperfection of market, this would set the total wage level beyond which it cannot be pushed and since in a perfect market system every one gets his marginal product, the equity is achieved. In this context industrialization with equity means following a policy of market perfection. But we know perfect market is an unattainable abstraction.

Second approach would be a variant of the first: it would follow a policy of keeping production policies and distribution policies separate. Thus product maximization policy would be persued and as more capital per unit of labour increases output upto a point, capital owners would remain influential. In the distribution policy, the major aim would be transfer of income to blunt the edges of inequality. There are limits to which capital can be taxed when product maximization is sought and there are also limits to which transfer income can be given within a market system without jeopardising incentive structure for work.

The logic of the first two strategies is that higher total product automatically ensures higher absolute share for the labour; it says nothing definite about the higher relative share. The case for higher relative share depends on the technology. If the technology is labour-intensive then the demand for labour would increase with increase in product and this would raise wage level. Thus the comparative statics with a given technology pushes us towards a traditional labour-intensive technology. This says nothing about technological change and increase in labour productivity which may also increase labour income, though equality may be at stake.

This brings us to the Third strategy where intervention is made to direct investment in a way to increase labour absorption, particularly those who are at the extreme end of the income scale. For such investment to sustain itself would require that the market for the produce already exists and can be expanded. This would be the case, if the produce is also the wage-good for those who get employed. Such an overlap in production and consumption is difficult to find.

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Fourth variant of the strategy is to convert the unemployed and unemployables into employable group through education and training. The success of the strategy would depend on existence of employment market or creation of employment market as indicated in the third strategy and the comments made in that context would also apply in this case.

Fifth is a variant of the second where equity is achieved not through transfer of income direct but through transfer of consumption goods. In the neoclassical sense private welfare may be higher when income is transfered. The case is also similar to the fourth, as it requires diversion of resources in product form rather than in the form of inputs. The market so created helps creation of jobs through expansion of production capacity of such goods; and such expansion may indeed increase inequity if these are controlled by capital-owners.

In terms of industry, within existing power structure and neo-classical analysis, the following strategies suggest themselves:

(a) Production technology be such that employs more of less privileged people;

(b) Investment in human capital be such as to raise the skill of less privileged in order to make them employable;

(c) Consumption needs of less privileged be given priority through a distributive system tagged to a production system that at least do not increase inequity by favouring capital-owners;

(d) Wherever the market and existing industrial structure fails to protect the interest of equity, public enterprises with public distribution system be adopted whence political and bureaucratic patronage would not be subvert such an effort;

(e) Preference for social ownership of assets, dispersal of industries within limits of economic efficiency and appropriate employment oriented technology is indicated;

(f) Whenever possible fiscal measures be used to reduce the gap in income and wealth structure; the revenue so gained may be used to finance any of the above mentioned programmes; and

(g) These are to be achieved alongwith maintenance of a minimum rate of growth;

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It should be noted that the above strategies are defined in the context of a given and unchanging power structure which may as well be the case. But if equity is to be attained, change in the power structure itself may become a strategy. This change may come through a process of democratic accommodation or through a process of revolution. Economists are themselves uncomfortable to deal with such a strategy. But the fact remains unless power structure changes involving the fundamentals of property in relation to society, the inequity is inevitable and it will breed inequity; because without basic equality in property ownership equal opportunity is difficult to ensure.

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